

THE MONTGOMERY FUND

INVESTMENT REPORT & FACT SHEET

FUND FACTS

INVESTMENT MANAGER

Montgomery Investment Management Pty Ltd

SUB-INVESTMENT MANAGER

Australian Eagle Asset Management Pty Ltd and their 18 year track record has been appointed as the sub-investment manager from 12 September 2022.

OBJECTIVE

The Montgomery Fund aims to outperform the index over a rolling 5-year period.

STYLE

Active, bottom-up, fundamental, quality

BENCHMARK

The S&P/ASX 300 Accumulation Index

FUND CONSTRUCTION

The Fund's All Cap portfolio will typically comprise 25-35 high-conviction stocks listed on the ASX.

APIR

FHT0030AU

RECOMMENDED INVESTMENT TIMEFRAME

5 years

MINIMUM INITIAL INVESTMENT

\$25,000

PORTFOLIO MANAGERS

Sean Sequeira
Alan Kwan

INCEPTION DATE

17 AUGUST 2012

FUND SIZE

\$365.4M

MANAGEMENT FEES AND COSTS

1.36% per annum¹

PERFORMANCE FEES

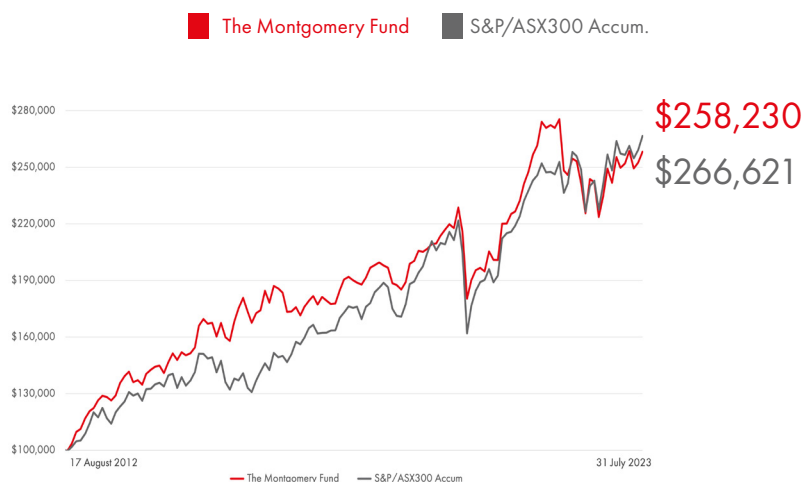
15.38% of the total return of The Fund that is in excess of the Index.¹

¹ See page 5 of the PDS for more information

APPLICATION & REDEMPTION PRICES

montinvest.com/tmf

PERFORMANCE GRAPH



DISTRIBUTIONS

HALF-YEAR TO	CENTS PER UNIT	DISTRIBUTION RETURN (%)
June 2023	4.4834	3.25
December 2022	1.5263	1.07
June 2022	14.4221	8.20
December 2021	1.0019	0.59
June 2021	5.0329	3.46
December 2020	0.4601	0.35
June 2020	0.0857	0.06
December 2019	1.5974	1.11
June 2019	6.2488	4.75
December 2018	2.3155	1.52

PORTFOLIO PERFORMANCE

(to 31 July 2023, after all fees)

	1 month	3 months	6 months	12 months	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)	Since inception ²	Compound annual return (since inception) ²
THE MONTGOMERY FUND	2.29%	-0.15%	1.11%	5.97%	9.86%	5.30%	4.72%	7.18%	158.23%	9.05%
S&P/ASX 300 ACCUM. INDEX	2.89%	2.03%	1.02%	11.09%	11.91%	7.46%	8.40%	8.30%	166.62%	9.37%
OUT/UNDER PERFORMANCE	-0.60%	-2.18%	0.09%	-5.12%	-2.05%	-2.16%	-3.68%	-1.12%	-8.39%	-0.32%

Fund performance prior to 12 September 2022 is not attributable to the current sub-investment manager, but the previous investment manager. Presented below is the longer-term record of the current sub-investment manager's strategy since its inception.

	1 month	3 months	6 months	12 months	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)	Since inception ²	Compound annual return (since inception) ²
AUSTRALIAN EAGLE COMPOSITE ³	2.29%	-0.15%	1.11%	11.63%	12.85%	10.39%	12.49%	11.71%	490.77%	10.09%
S&P/ASX 300 ACCUM. INDEX	2.89%	2.03%	1.02%	11.09%	11.91%	7.46%	8.40%	8.30%	283.49%	7.55%
OUT/UNDER PERFORMANCE	-0.60%	-2.18%	0.09%	0.54%	0.94%	2.93%	4.09%	3.41%	207.28%	2.54%

² 17 August 2012

³ The inception date of the Australian Eagle Composite is 07 February 2005. The performance represents the Australian Eagle SMA performance adjusted to include The Montgomery Fund's fees. Portfolio Performance is calculated after fees and costs, including the Investment management fee and Performance fee, but excludes the buy/sell spread. All returns are on a pre-tax basis. The returns in the composite include the Australian Eagle returns from 7 February 2005 to 30 September 2022, and from this point onwards include the returns in The Montgomery Fund (the first full month Australian Eagle commenced as the investment manager for this product).

Portfolio Performance is calculated after fees and costs, including the Investment management fee and Performance fee, but excludes the buy/sell spread. All returns are on a pre-tax basis. Past performance is not indicative of future performance.



TOP COMPLETED HOLDINGS* (TCH)

(at 31 July 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.01
Rio Tinto Ltd	RIO	Materials	6.02
QBE Insurance Group Ltd	QBE	Financials	5.96
CSL Ltd	CSL	Health Care	5.53
Cochlear Ltd	COH	Health Care	5.50
Newcrest Mining Ltd	NCM	Materials	5.35
Transurban Group	TCL	Industrials	5.06
Macquarie Group Ltd	MQG	Financials	5.01
Woodside Energy Group Ltd	WDS	Energy	4.99
Altium Ltd	ALU	Information Technology	4.16
Total equity weighting			98.36
Total cash weighting			1.64

*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

TOP 3 CONTRIBUTORS AND DETRACTORS

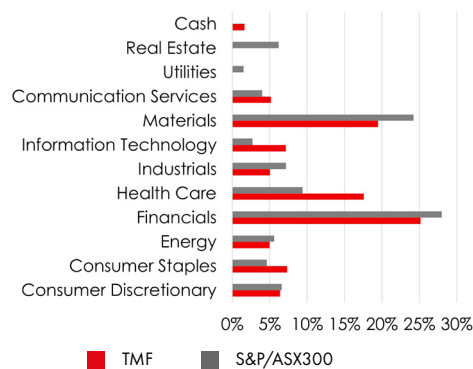
CONTRIBUTORS

Woodside Energy Group	The share price rose with the oil price.
Costa Group	The share price rose after receiving a takeover bid from a private equity firm.
Corporate Travel Management	The share price outperformed after providing positive guidance for FY24.

DETRACTORS

IGO Limited	The share price fell after announcing a non-cash impairment of some nickel mines.
CSL Limited	The share price continued to fall after announcing short-term foreign exchange headwinds.
Macquarie Group	The share price underperformed after announcing slower corporate transaction and trading activity.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	55.5%	60.0%	-4.5%	13
ASX 21 -50	22.7%	17.2%	5.5%	7
ASX 51 -100	9.2%	12.2%	-3.0%	3
ASX 101 -200	10.1%	8.2%	1.9%	6
ASX 201 -300	0.0%	2.6%	-2.6%	0
Ex S&P/ ASX 300	0.9%		0.9%	1
Cash	1.6%			
Total	100.0%			

CONTACT DETAILS

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The Montgomery Fund (The Fund) delivered a solid performance in July, returning 2.29 per cent net of fees. Though this was a respectable gain, it was overshadowed by the S&P/ASX 300 Accumulation Index which returned 2.89 per cent, driven by a rally in the big four banks. The Fund is invested in the Commonwealth Bank of Australia (ASX:CBA), the largest and highest quality retail bank, as well as a smaller position in National Australia Bank (ASX:NAB). The team believes the earnings outlook for banks is challenged as doubtful loan provisions should normalise from extraordinarily low levels in the last few years as homeowners' face pressure from the last 4 per cent of Reserve Bank of Australia (RBA) official interest rate rises.

Central banks around the world have signalled that their journey towards lower inflation has made progress but how far to go is still unclear due to the lag effects of the fastest interest rate hiking cycle in modern history.

The U.S. Federal Reserve raised interest rates by 0.25 per cent, contributing to a slight steepening of the yield curve, with the 10-year bond yield rising 12 basis points while short term yields remained relatively stable. These moves signalled market expectation of interest rates to remain at these higher levels over the medium term.

In other large economies, the European Central Bank (ECB) and last week the Bank of England (BoE) followed suit, each hiking rates by 0.25 per cent, reflecting a consensus that inflation is still running too high in those regions. The RBA held rates steady at 4.10 per cent with the board opting to wait to see the effects of recent hikes on the economy.

The effect of these central bank moves on the financial markets and the economic landscape will become more apparent in August with reporting season kicking into gear. So far, quarterly reports and company updates have revealed mixed results. From a broader perspective, both the U.S. and Australian economy have demonstrated resilience with unemployment remaining at low levels while also avoiding a recession thus far.

The standout performers of The Fund for July were from a variety of sectors. Woodside Energy (ASX:WDS) caught the market's attention with notable gains, spurred by rising oil prices. These increases were largely attributed to OPEC production cuts that tightened the global oil supply and continued depletion of U.S. oil inventories. We have slightly reduced our position in Woodside Energy as we brought our oil and gas exposure back within our risk parameters.

Costa Group (ASX:CGC), a smaller position we built up from the end of last year, experienced a sharp rise following a takeover bid by Paine Schwartz at \$3.50 per share. This proposal which is now under a 4-week due diligence examination, has prompted a significant re-evaluation of the stock as investors await further announcements from the board of directors. Our stock focus at the end of this report is on Costa Group, outlining the history, research and thinking behind the investment team's portfolio position.

Lastly, Corporate Travel Management (ASX:CTD) stood out for its strong performance on the back of a recent update revealing that the recovery of business travel is building momentum, especially in Europe where profit has already doubled compared to financial year 2019. The company's medium-term profit target of \$265 million earnings before interest, taxes, depreciation, and amortization (EBITDA) remains intact with management stating their confidence in an acceleration of profit over the next year while navigating the evolving travel industry landscape.

In terms of detractors to performance, IGO Ltd (ASX:IGO) faced challenges mainly due to a non-cash impairment for its nickel mines acquired from Western Areas and the slower-than-anticipated ramp-up of Kwinana Refinery Train 1. While these setbacks weighed on the stock's performance, it is worth noting that production at the Greenbushes mine continued to progress well, culminating in a record quarterly dividend from the TLEA (Tianqi Lithium Energy Australia is 49 per cent owned by IGO) joint venture, mitigating some of the negative impacts.

CSL Ltd (ASX:CSL) was another detractor as it extended its correction, a trend triggered by the company's June announcement regarding short-term foreign exchange headwinds and potential margin pressures stemming from more expensive plasma donations received during COVID-19. This issue is expected to affect the business for about 18 months as additional costs work their way through to the customer. Demand for its products remain robust but we have reduced our position in CSL and reallocated this into stocks offering more near-term upside potential.

Finally, Macquarie Group (ASX:MQG) also saw a decline following a recent update at the Annual General Meeting (AGM), where management acknowledged that trading conditions are subdued. With lower contributions from its green energy investments after an extremely strong prior year result as well as fewer investment banking transactions, Macquarie cautioned investors that its most recent quarterly performance was substantially down, casting a shadow on its near-term outlook. The investment team had already reduced its exposure to Macquarie Group in May due to the heightened risk of short-term underperformance and we remain satisfied with the current positioning.

In terms of portfolio changes, the team initiated an initial addition to the portfolio with Ramsay Health Care Ltd (ASX:RHC), an intriguing investment opportunity presenting a potential turnaround story. As the largest private hospital provider in Australia with operations in France, U.K., Sweden and Asia, profit margins for all divisions found their lows during the middle of 2022 and early indications suggest that business momentum is building. This is particularly evident in the growth of day surgery volumes, a promising sign of recovery especially after patients delayed elective surgeries during COVID-19. Further supporting an increasingly positive outlook, labour shortages and absenteeism also stemming from COVID-19 have eased, contributing to a more stable operational environment.

PLATFORMS WE ARE ON: Ausmaq ⇄ AMP PortfolioCare ⇄ AMP Summit ⇄ AMP Wealthview ⇄ AMP North ⇄ Asgard ⇄ BT Panorama ⇄ Colonial First Wrap ⇄ Clearview Wealthsolutions ⇄ HUB24 IDPS ⇄ HUB24 Super ⇄ Investment Exchange (IX) ⇄ Macquarie Wrap ⇄ MLC/Navigator S&P ⇄ MLC/Navigator IDPS ⇄ Netwealth ⇄ OneVue ⇄ Praemium ⇄ Powerwrap ⇄ Wealth02/uXchange ⇄

This report was prepared by Montgomery Investment Management Pty Ltd, AFSL No: 354564 ('Montgomery') the investment manager of The Montgomery Fund ('TMF'), ARSN 159 364 155. The Responsible Entity of The Fund is Fundhost Limited (ABN 69 092 517 087) (AFSL No: 233 045) ('Fundhost'). This document has been prepared for the purpose of providing general information, without taking into account your particular objectives, financial circumstances or needs. You should obtain and consider a copy of the Product Disclosure Document ('PDS') relating to the Fund before making a decision to invest. Both the PDS and the Target Market Determination are available here: <http://fundhost.com.au/investor/tmf>. While the information in this document has been prepared with all reasonable care, neither Fundhost nor Montgomery makes any representation or warranty as to the accuracy or completeness of any statement in this document including any forecasts. Neither Fundhost nor Montgomery guarantees the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither Fundhost nor Montgomery, including their employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this report. Past performance is not indicative of future performance.



From a strategic perspective, Ramsay management have signalled that they are open to monetising assets as they have been approached with multiple offers to buy their stake in Ramsay Sime Darby Health Care, their 50:50 joint venture in Asia. Management have also refinanced \$1.5 billion of their debt, a move designed to diversify their loan facilities and go some way to alleviating their interest expense.

The investment team sees limited downside risk due to significant market and valuation support at current share price levels. This is evidenced by management's emergency capital raising of \$1.5 billion in 2020 at the beginning of the COVID-19 pandemic at \$56 per share. We keenly await an update from management in August regarding its continued recovery as well as any further positive strategic updates to support a larger position in the portfolio.

The Fund increased its position in Telix Pharmaceuticals (ASX:TLX) after the company demonstrated strong business momentum, as evidenced in their June 2023 quarterly report. Their flagship prostate cancer diagnostic product, Illuccix, has not only shown a robust improvement in profitability but has also continued its revenue growth of 20 per cent over the previous quarter. Furthermore, management's announcement of the planned launch of two new products for the diagnosis of brain and renal cancer in 2024 offers adjacent markets to exploit. While Illuccix has been relatively successful, the ultimate goal for the company is to treat cancer and this has not been forgotten with the progression of ongoing phase III trials for their cancer therapeutic products. All these upcoming products symbolise Telix's commitment to innovation and growth in the oncological space, positioning itself as a future industry leader. The investment team will continue to monitor its progress with great interest and add more portfolio weight on further evidence of forward business momentum.

In our ongoing assessment of portfolio exposures and performance, we have reduced the Fund's weight in Pro Medicus (ASX:PME). This decision comes after careful observation of slowing momentum in the company's new contract announcements versus previous years. While Pro Medicus continues to be a key player in the medical imaging industry, the recent relative lull has led us to adopt a more cautious stance. It is important to note that this adjustment is not a reflection of a fundamental change in our view of Pro Medicus as a valuable entity, but rather a calibrated response to current market conditions and performance indicators. We remain cognisant of the company's situation and will continue to evaluate its position within our portfolio considering any future changes.

Costa Group

In its early years, Costa Group made a confident assertion of having eliminated external environmental cyclicality, promising consistent performance irrespective of seasonal weather conditions. Unfortunately, the company's inability to uphold this commitment resulted in market disappointment, underscoring the inherent unpredictability of the agricultural sector.

Despite constantly disappointing the market with multiple setbacks, Australian Eagle initiated a position in Costa Group late last year after two key events: the minority share acquisition by Paine Schwartz Partners and a trading update, both in October 2022.

The investment by Paine Schwartz was particularly intriguing to Australian Eagle for various reasons. Formerly known as Paine & Partners, astute market observers may recall their majority ownership of Costa Group for four years before its 2015 initial public offering (IPO). After progressively divesting their remaining stake as the share price surged to nearly \$8 in 2018, Paine Schwartz reappeared on the share register in late 2022, holding a 13.78 per cent stake, acquired at \$2.60 per share, slightly above the 2015 IPO price of \$2.25.

Further research into Paine Schwartz revealed their specialisation in sustainable food chain investing, which, given the growing emphasis on reducing carbon footprints among companies, was perceived by the team as a potential positive influence on Costa Group's operations.

From a fundamental standpoint, Costa Group's property portfolio had nearly doubled to 700 hectares over the seven years since IPO, incorporating numerous Australian and international farms. Nonetheless, the share price regressed to IPO levels.

The primary cause of the share price regression was a few negative trading updates culminating with the last in early October 2022, indicating reduced profits in Costa Group's flagship Citrus division due to lower quality crops caused by adverse weather conditions. Given the highly cyclical nature of agriculture, Australian Eagle's other agricultural holdings at that time, Elders Ltd (ASX:ELD) and Incitec Pivot Ltd (ASX:IPL), both reported peaking earnings and demand due to previously favourable weather patterns and an opportunity for these exposures to be replaced.

Australian Eagle initiated a position in Costa Group in November 2022 as the team saw a likelihood for improved results in the subsequent period with limited downside. This ultimately proved to be correct as management announced at the AGM in May 2023 that things were looking very positive with a much-improved labour, supply chain and weather situation.

Fast-forwarding to early July, Costa Group disclosed Paine Schwartz's takeover bid for all issued shares at \$3.50 per share, following four weeks of initial due diligence. While Australian Eagle's investment strategy remains independent of merger and acquisition (M&A) speculation and while we see the possibility for further upside in the coming years, this takeover bid is a welcome bonus as it shortened the timeframe needed to realise Costa Group's true value alongside reducing execution risk.

The immediate term future of Costa Group is improving but the story with Costa Group exemplifies the complexities and uncertainties of agricultural investments that can offer strong return opportunities should management be able to position the company to reduce downside risk and benefit from external tailwinds.

